INVESTMENT SECTION

for Fiscal Year ending June 30, 2004

Photo & information courtesy of the Kentucky Historical Society Collections

The Kentucky Military History Museum

Frankfort, Kentucky

The Kentucky Military History Museum emphasizes the service of the Kentucky Militia, State Guard, and other volunteer military organizations, from the Revolution through the Gulf War. Displays include an impressive collection of firearms, edged weapons, artillery, uniforms, flags, photographs, personal items, and other equipment that illustrates the Commonwealth's martial heritage.

REPORT ON INVESTMENT ACTIVITY

This report is prepared by the Investment staff of the Kentucky Teachers' Retirement System.

Mr. Stuart A. Reagan, CFA
Chief Investment Officer

Mr. Benny Greenwell, CPA
Director of Investment Accounting

OVERVIEW

The Board of Trustees of the Teachers' Retirement System annually appoints an Investment Committee consisting of two Board members and the Executive Secretary. This Committee acts on behalf of the Board, subject to its approval, in all matters concerning investments. In compliance with the Kentucky Revised Statutes, the Board of Trustees has adopted an "Investment Policy" which it reviews periodically. The investment objectives of the Board of Trustees are as follows:

1. The funds of the Teachers' Retirement System of the State of Kentucky shall be invested solely in the interest of its members and their beneficiaries. Investment income shall be used for the exclusive purpose of providing benefits to the members and their beneficiaries and making payment of reasonable expenses in administering the Plan and its Trust Funds.

2. The specific objective of the investment program shall be the investment of the Fund's assets in securities which shall provide a reasonable rate of total return with major emphasis being placed upon the protection of the invested assets. When investments are acquired, current income together with prospects for capital appreciation shall be weighed in regard to the long range needs of providing benefits to members and their beneficiaries. Short term fluctuation in the market value of the Fund's assets shall be considered as secondary to the long-term objectives and needs of the System.

Within the Kentucky Revised Statutes and pertinent policies, the Board of Trustees and the Investment Committee shall execute their fiduciary responsibilities in accordance with the "prudent man rule", as identified in KRS 161.430 (2)(b). Investment activities shall be conducted, "with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims". The responsibility for investing the assets of the System is clearly assigned to the Board of Trustees.

INVESTMENT COMMITTEE

MR. ARTHUR W. GREEN
Chairman

MR. ROBERT M. CONLEY
Vice-Chairman

MR. GARY L. HARBIN, CPA
Ex-Officio Member, Executive Secretary

EXECUTIVE INVESTMENT STAFF

MR. GARY L. HARBIN, CPA
Executive Secretary

MR. STUART A. REAGAN, CFA
Chief Investment Officer

PROFESSIONAL CONSULTANTS

Investment Advisors
Fixed Income and Equity Managers
Todd Investment Advisors
101 South Fifth Street
National City Towers, Suite 3160
Louisville, Kentucky 40202

Invesco-National Asset Management
400 West Market Street
Suite 2500
Louisville, Kentucky 40202

Equity Managers
UBS Global Asset Management
UBS Tower
One North Wacker Drive
Chicago, Illinois 60606

Wellington Management Company
75 State Street
Boston, Massachusetts 02109

Investment Consultant
Becker, Burke Associates, Inc.
Suite 1000
221 North LaSalle Street
Chicago, Illinois 60601

Investment Custodian/Subcustodian
Farmers Bank & Capital Trust Co.
Farmers Bank Plaza
Frankfort, Kentucky 40601

The Bank of New York
One Wall Street
New York, New York 10286

INVESTMENT CONSULTANT'S STATEMENT

Becker, Burke Associates served as Investment Consultant to the Kentucky Teachers' Retirement System during the 2003-04 fiscal year as it has in several previous years. Becker Burke Associates is familiar with the operation of the System's investment program as well as its performance. The investment program of the Retirement System is operated in a prudent manner that reflects a desire to preserve capital while maximizing returns. The assets of the Retirement System are assigned to various portfolios in order to diversify the System's investments and take advantage of opportunities in various asset classes and sectors. The System gravitates toward relatively conservative holdings in each asset class. The overall effect of diversification is to minimize risk. The manner in which the Retirement System operates and its investment results are commensurate with other risk-averse institutional investors in similar regulatory environments.

Edmund M. Burke
President
Becker, Burke Associates
September 28, 2004

ASSET ALLOCATION

The Board of Trustees and the Investment Committee are guided by asset allocation parameters that the Board approves through its powers defined in KRS 161.430. The asset allocation limits complement the investment principles used by the Board and Committee regarding security, diversification, high return, and liquidity. The asset allocation policy is adopted by the Board of Trustees and approved in the form of administrative regulation. The asset allocation parameters are structured in order to maximize return while at the same time provide a prudent diversification of assets and preserve the capital of the Teachers' Retirement System. The Board is interested in assuming secure investments that will provide long term growth to the fund. The Board does not arbitrarily compromise security in order to enhance the prospects of return. The Investment Committee and the Board are mindful of the fund's liquidity and its capability at meeting both short and long term obligations. Asset allocation parameters follow:

1. There will be no limit on the amount of investments owned by the System that are guaranteed by the U.S. Government.
2. Not more than 35% of the assets of the System at book value shall be invested in corporate debt obligations.
3. Not more than 60% of the assets of the System at book value shall be invested in common stocks or preferred stocks. No more than 25% of the assets of the System at book value shall be invested in a stock portfolio designed to replicate a general, U.S. stock index.
4. Not more than 10% of the assets of the System at book value shall be invested in real estate. This would include real estate equity, real estate lease agreements, mortgages on real estate that are not guaranteed by the U.S. Government, and shares in real estate investment trusts.
5. Not more than 1% of the assets of the System at book value shall be invested in venture capital investments providing at least 75% of such investments must be in-state.
6. Not more than 10% of the assets of the System at book value shall be invested in any additional category or categories of investments. The Board shall approve by resolution such additional category or categories of investments. Within this parameter, the Board approved a provision in 1999-2000 that permits limited ownership of foreign equities. The System may acquire equity in large capitalization companies whose stock is traded in the U.S., but the companies are domiciled in select foreign countries. Foreign exposure is limited to 1.2% of the System's assets at book value.

The asset allocation of investments at market value was somewhat different at the beginning of the fiscal year than it was on June 30, 2004. In addition, the market value allocation of assets through the dynamics of the securities markets is different than the book value allocations. During the 2003-04 fiscal year, the market value of the stock position increased from 48% to 56% of assets. The portion of the portfolio in Government securities decreased from 24% to 19%. The cash position increased slightly during the year to 8% of assets. The real estate equity position remained a relatively small portion of the System's portfolio at approximately 3%.

The Kentucky Revised Statutes require the Board of Trustees to employ experienced investment counselors to advise it on investment related matters. Todd Investment Advisors was employed during 2003-04 as the System's principal investment counselor, providing assistance in the management of $2.4 billion of stocks and bonds. Invesco-National Asset Management, UBS Global Asset Management, and Wellington Management Company also were retained during the 2003-04 fiscal year to provide investment counseling services. Invesco-National Asset Management assisted in the management of approximately $953 million in bonds, as well as managing about $974 million in equity investments. UBS Global Asset Management, formerly Brinson Partners, was responsible for managing approximately $851 million in equities, and Wellington Management Company managed about $867 million in equities. In addition to monitoring the investment counselors, the in-house investment staff managed about $6.9 billion of fixed income and equity assets. All of the investment firms, while specializing in particular asset classes or sectors, are required to work within the same broad objectives, portfolio constraints, and administrative guidelines. Four investment counselors plus an in-house staff provide the Board of Trustees with a diversification of management that is appropriate for a $13.0 billion fund. The Farmers Bank & Capital Trust Company, located in Frankfort, Kentucky, was retained in 2003-04 as the Custodian of Securities with the Bank of New York serving as a sub-custodian.

The System regularly votes proxy statements associated with its equity ownership. The positions assumed by the System are intended to represent the financial interests of the membership. The Board of Trustees has adopted a policy that directs the staff not to subjugate the financial concerns of the System to social or political protests. At the same time, the System expects the companies in which it acquires stock to be solid corporate citizens that abide by Federal, state, and local laws.

FINANCIAL ENVIRONMENT

In the fiscal year ended June 30, 2004, the stock market rallied as the economy strengthened and corporate profits surged. The S & P 500 Index and the Dow Jones Industrial Index, representing many of the largest publicly-traded companies, were up 19.1% and 18.6% respectively, over the fiscal year. Smaller company stocks were even stronger, with the S & P 400 Mid Cap Index up 28.0% and the S & P 600 Small Cap Index up 35.2%. The technology-heavy Nasdaq Composite Index was up 26.2% over the fiscal year.

Gross domestic product, adjusted for inflation, grew 4.8% over the fiscal year, up from 2.3% growth over the previous twelve months. Industrial production was up by 5.6% versus a 1.5% decline the previous year. Job creation improved over the year and the unemployment rate declined from 6.3% to 5.6%, helping to keep consumer spending strong. Capital spending by businesses also improved as capacity utilization began to tighten up. A low interest rate environment supported the economy and equity market over the fiscal year as the Federal Reserve kept the federal funds rate at 1.00%, only changing that policy on June 30, 2004. The strengthening economy improved pricing power at many companies and caused core inflation, as measured by the Consumer Price Index excluding the volatile food and energy components, to rise to 1.9% over the fiscal year from 1.5% the previous year.

While the strengthening economy was good news for stocks it was clearly not for bonds. Interest rates, which started the fiscal year at multi-decade lows, went up and bond prices down. Mortgage-backed securities held up relatively well in this environment as did lower credit quality bonds, but returns were dismal at best throughout the asset class. The Lehman Government Credit Index returned(-0.72%) for the twelve-month period ended June 30, 2004. U.S. Treasury bonds returned (-1.65%), while BBB-rated bonds, the lowest quality in the Index, returned 1.23%. Mortgages returned 2.23%.

Starting from a forty-five year low in interest rates and following several strong years, bond returns were inevitably disappointing in the fiscal year ended June 30, 2004. Going forward, the Federal Reserve's June 30 hike in short-term rates was expected to be only the first of several in a process of moving monetary policy from "accommodative" to "neutral". While the outlook was clearly for higher short-term interest rates, the effect on longer-term interest rates was less certain. If inflation and inflation expectations were successfully contained, the effect could be primarily to narrow the gap between short-term and longer-term interest rates.

PORTFOLIO CHARACTERISTICS

At year's end, the System's entire stock portfolios, exclusive of the stock index fund, could be characterized as high quality and diversified. The KTRS portfolio, as measured by beta, was approximately as risky as the Standard & Poor's 500 Index. Beta is a measure of the volatility in price of a particular stock or portfolio compared to the volatility of the index. The beta of the KTRS portfolio at the end of the fiscal year was 1.04. The KTRS portfolio registered a price-earnings multiple that was lower than the index. The price-earnings ratio for the portfolio at the end of the fiscal year was 18.9, compared to 19.8 for the index. Two factors attesting to the high quality of the portfolio were the high rate of growth in both earnings per share and dividends per share. The average earnings growth rate over the past five years for the KTRS stock portfolio was 9.00%. The average dividend growth rate for the past five years of the KTRS portfolio was 4.7%. At the end of the 2003-04 fiscal year, the yield level for the KTRS portfolio stood at 1.8%, which was slightly higher than the index yield level of 1.7%.

The stock position, apart from the stock index fund, began the 2003-04 fiscal year by being 27% of assets at market value, and by year-end, it constituted 31.2% of assets. In dollars, the value of the stock position increased from approximately $3.3 billion to about $4.0 billion in 2003-04. The stock index funds represented another $3.2 billion that was invested in stocks at year end. Stock selections during 2003-04 affected a variety of market sectors. At the end of 2003-04, the sector weightings in the KTRS stock portfolio were similar to those of the Standard & Poor's 500 Index. The greatest differences were underweightings by KTRS in the consumer staples and information technology sectors and overweightings in the financials and materials sectors.

On June 30, 2004, the System's entire bond portfolio had a duration of 5.2 years. The coupon rate for the holdings was 5.9%. As of June 30, 2004, the average maturity of the fixed income portfolio was 8.0 years. The maturities of fixed income investments will generate cash for the fund in future years. Approximately 79% of the fixed income investments, including short term cash equivalents, will mature by the end of 2016, about 12 years. This will assist the System in meeting retirement fund obligations as well as permit it to assume new investments.

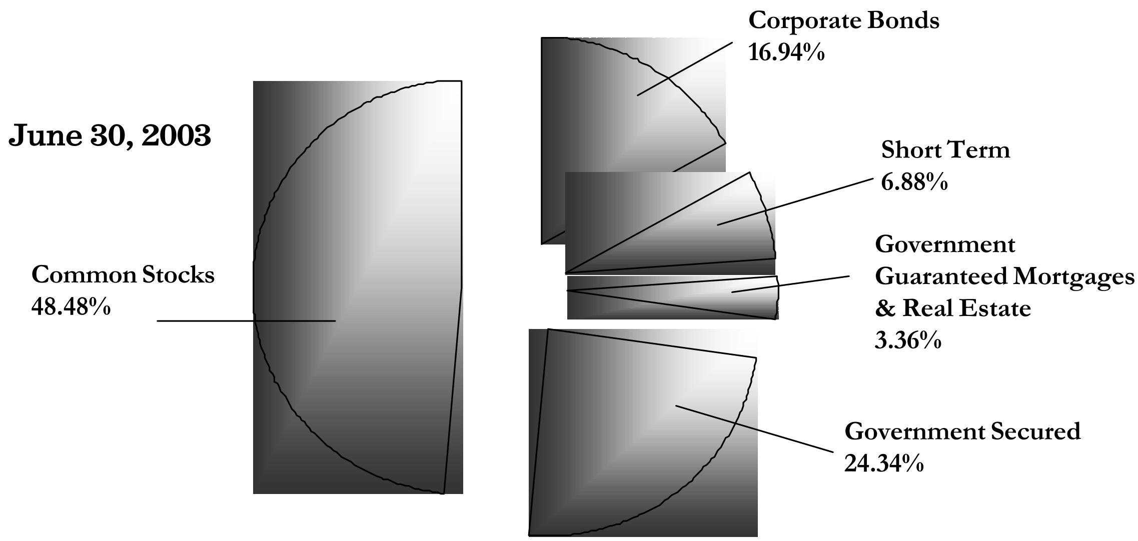
PORTFOLIO RETURNS

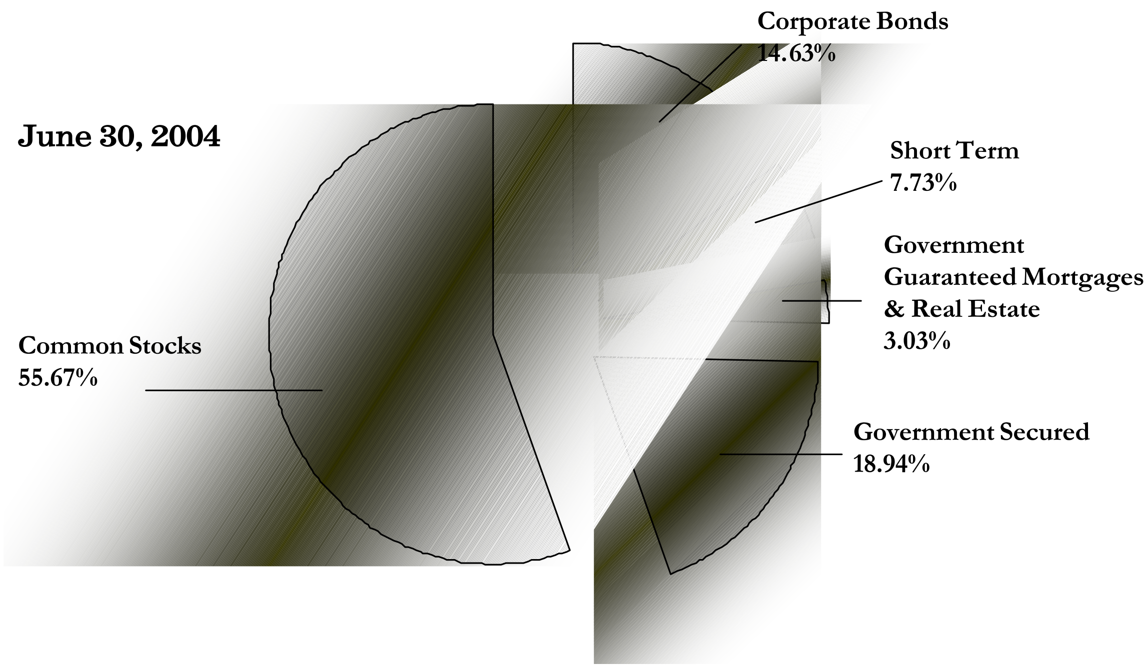
The investment portfolio experienced growth in book values and its market value during the 2003-04 year. The market value of the portfolio increased $861.6 million to a total of $13.0 billion at year-end. The book value of the fund increased $328.7 million during the year. The System accumulated in excess of $638 million of investment income during 2003-04; this investment income total excludes monies earned but not received by the end of the fiscal year. The income resulted from interest, dividends, rental income, lending income, and gains.

For the 2003-04 fiscal year, the total return earned by the System's stock position is slightly higher than the return generated by the Standard & Poor's 500 Stock Index. The KTRS stock position earned a total return of 19.2% in 2003-04, while the stock index earned 19.1%. The ten year annualized return for the years 1995 through 2004 was 12.0% for the System's stock position and 11.8% for the stock index. The System's bond position earned a ten year annualized total return of 7.3%. This is equal to the 7.3% return earned by the Lehman Government/Credit, High Quality, Index. In 2003-04, the System's bonds earned a total return of (0.7)%, while the Lehman Index earned (1.2)%. The entire portfolio earned a total return of 9.7% in 2003-04. The portfolio's ten year annualized rate of total return was 9.2%. The total return of the portfolio over ten years more than kept up with the rate of inflation and provided real growth. In 2003-04, the Consumer Price Index registered an inflation rate of 3.2%. The ten year annualized rate is 2.6%. The System conforms to "AIMR Performance Presentation Standards" in calculating portfolio returns.

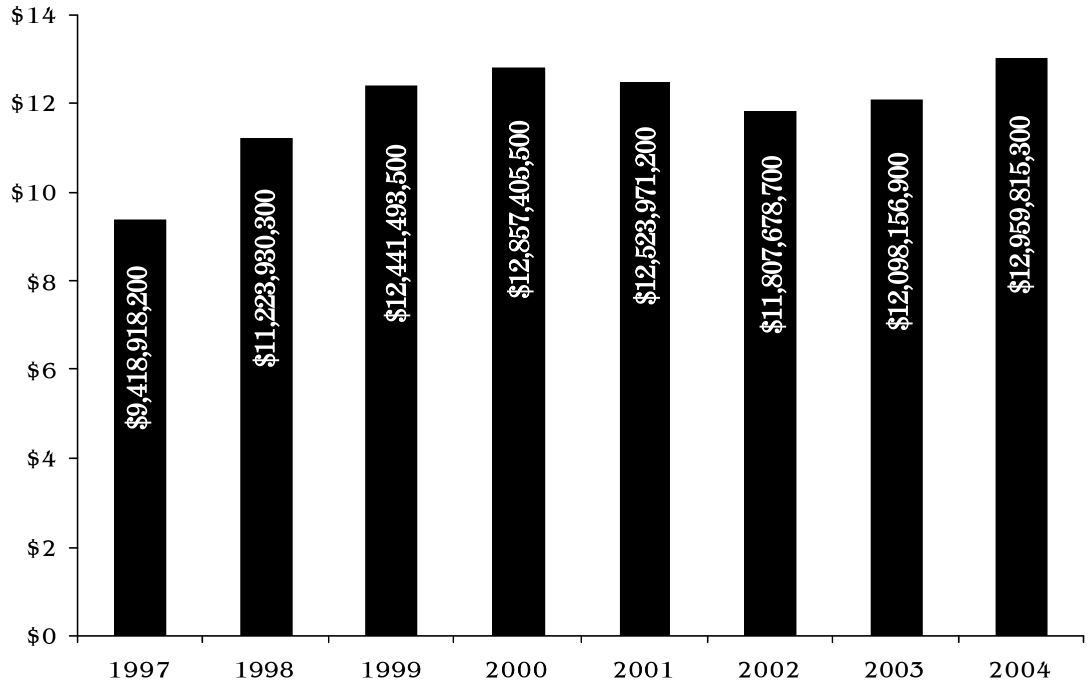
The charts that follow this narrative graphically display the growth that is discussed in the preceding paragraphs. Following the charts is a summary description of investments held at June 30, 2004. The System annually produces a detailed investment report that is available on request.

Distribution of Investments
Market Values

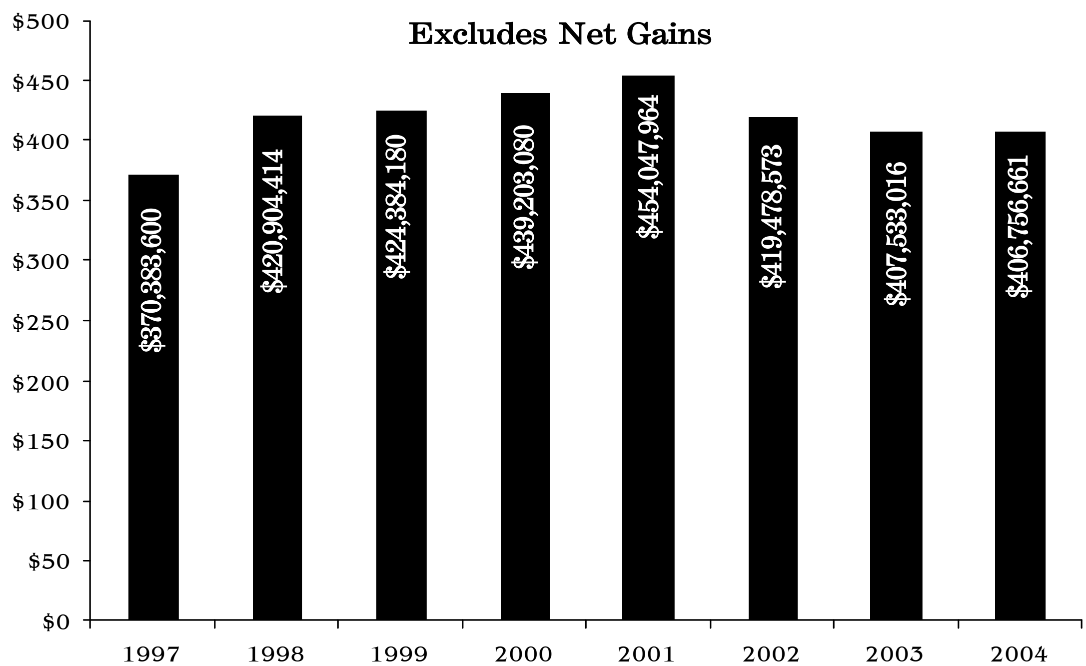




Investment Portfolio Growth
Market Values



Investment Income Growth
Excludes Amortization
Excludes Net Gains



Total Return on KTRS Investments*
Percentages

Fiscal Year	Standard & Poor's 500 Index	KTRS Stocks	Lehman Brothers Govt./Credit Bond Index	KTRS Bonds	Consumer Price Index	KTRS Cash Collection Fund	KTRS Real Estate	KTRS Total Portfolio
1994-95	26.1	25.3	12.4	12.7	3.0	6.3	10.1	16.9
1995-96	26.0	25.3	4.6	4.3	2.8	6.0	11.6	13.5
1996-97	34.7	33.1	7.6	7.8	2.3	5.8	8.8	19.6
1997-98	30.2	29.2	11.3	11.6	1.7	6.1	9.7	19.4
1998-99	22.8	22.0	2.7	2.3	2.0	5.3	9.7	11.5
1999-00	7.3	3.6	4.6	4.9	3.7	5.8	9.9	4.1
2000-01	(14.8)	(8.9)	11.0	10.9	3.3	6.0	9.5	(0.7)
2001-02	(18.0)	(14.5)	8.6	9.5	1.1	2.5	6.0	4.1
2002-03	0.3	(1.1)	12.3	12.4	2.1	1.5	9.3	4.8
2003-04	19.1	19.2	(1.2)	(0.7)	3.2	1.0	9.7	9.7
Three Year Annualized Rate	(0.7)	0.4	6.4	6.9	2.1	1.6	8.3	3.3
Five Year Annualized Rate	(2.2)	(0.9)	7.0	7.2	2.7	3.3	8.9	2.7
Eight Year Annualized Rate	8.5	9.1	7.0	7.1	2.4	4.2	9.1	7.7
Ten Year Annualized Rate	11.8	12.0	7.3	7.3	2.6	4.6	9.4	9.2
Fifteen Year Annualized Rate	11.3	12.0	7.7	7.8	2.9	5.1	8.5	9.1
Twenty Year Annualized Rate	13.5	13.7	9.4	9.7	3.1	---	---	10.7

** Teachers' Retirement System of the State of Kentucky has prepared and presented this report in compliance with the Performance Presentation Standards of the Association for Investment Management and Research (AIMR-PPS). AIMR has not been involved with the preparation or review of this report.*

Investment Summary
Fair Market Value
06/30/2004

Type of Investment	Fair Value 07/01/03	Acquisitions	Appreciation (Depreciation)	Sales Redemptions, Maturities & Paydowns	Fair Value 06/30/04
Short Term	832,750,000	38,789,190,000	0.00	38,619,640,000	1,002,300,000
Fixed Income	5,042,639,700	766,827,700	(284,831,200)	1,147,648,800	4,376,987,400
Equities	6,222,767,200	2,184,878,300	1,048,006,100	1,875,123,700	7,580,527,900
TOTAL	12,098,156,900	41,740,896,000	763,174,900	41,642,412,500	12,959,815,300

Contracted Investment Management Expenses
($ Thousands) as of 06/30/2004

	Assets Under Management	Expenses	Basis Points *
INVESTMENT MANAGER FEES			
Fixed Income Managers	$ 952,761	$ 360	3.8
Equity Managers	2,692,787	2,929	10.9
Balanced Manager	2,412,738	840	3.5
TOTALS	$ 6,058,286	$ 4,129	6.8
OTHER INVESTMENT SERVICES			
Custodian Services	$ 12,959,815	$ 443	0.3
Investment Consultant		45	
TOTAL		$ 488	
GRAND TOTAL		$ 4,617	3.6

* One basis point is one-hundreth of one percent or the equivalent of .0001.

Transaction Commissions

06/30/2004

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
A G EDWARDS	1,757,600	70,530.00	0.0401
ADAMS HARKNESS & HILL	19,600	975.00	0.0497
ADVEST INC	1,992,938	79,717.52	0.0400
ARCHIPELAGO	6,800	85.50	0.0126
AVONDALE PARTNERS	5,800	174.00	0.0300
B TRADE SERVICES	14,910	170.65	0.0114
BANC OF AMERICA SECURITIES	263,400	12,607.00	0.0479
BEAR STEARNS & CO	133,100	6,655.00	0.0500
BERNSTEIN, SANFORD & CO	62,800	3,140.00	0.0500
BLAIR, WILLIAM & CO	6,600	198.00	0.0300
BOENNING & SCATTERGOOD	279,045	6,852.35	0.0246
BRANDT, ROBERT	11,500	345.00	0.0300
BRIDGE TRADING CO	74,900	1,520.00	0.0203
CANTOR FITZGERALD	55,600	1,892.00	0.0340
CIBC OPPENHEIMER WORLDMARKET	38,900	1,780.00	0.0458
CITIGROUP GLOBAL MARKETS	7,011,266	347,740.30	0.0496
COWEN & CO	257,000	10,468.00	0.0407
CREDIT LYONNAIS SECURITIES	1,300	65.00	0.0500
CS FIRST BOSTON	2,961,700	161,788.60	0.0546
CUTTONE & CO	32,000	932.00	0.0291
DEUTSCHE BANK SECURITIES	2,602,926	130,146.30	0.0500
EURO BROKERS	205,700	6,171.00	0.0300
FIDELITY CAPITAL MARKETS	28,800	864.00	0.0300
FIRST ALBANY CORP	83,800	4,085.00	0.0487
FREIDMAN BILLINGS	91,300	4,565.00	0.0500
FULCRUM GLOBAL PARTNERS	77,300	2,435.00	0.0315
GOLDMAN SACHS & CO	3,912,421	163,374.21	0.0418
GREEN STREET ADVISOR	28,600	1,430.00	0.0500
HARBORSIDE SEC	2,400	48.00	0.0200
HARRIS NESBITT GERAR	8,300	415.00	0.0500
HEFLIN & CO	36,800	1,472.00	0.0400
HELFANT INC	220,700	5,517.50	0.0250
HOEFER & ARNETT INC	200	10.00	0.0500
HOWE BARNES INVESTMENT	4,400	220.00	0.0500
INSTINET	157,500	2,235.50	0.0142
INVESTMENT TECHNOLOGY	17,458,915	325,688.55	0.0187
ISI GROUP INC	1,705,700	68,228.00	0.0400
J J B HILLIARD W L LYONS INC	1,634,478	65,379.12	0.0400
J P MORGAN CHASE & CO	119,915	5,995.75	0.0500
JEFFERIES & CO	5,695,647	254,891.63	0.0448
JEROME P DUNLEVY	20,400	791.00	0.0388
JNK SECURITIES CORP	8,500	255.00	0.0300
JOHNSON, RICE & COMP	20,000	1,000.00	0.0500
JONES & ASSOCIATES	49,800	2,072.00	0.0416
K V EXECUTION SERVICES	82,300	2,096.50	0.0255
KEEFE BRUYETTE & WOODS	154,400	7,720.00	0.0500
KENNY & CO	224,200	6,726.00	0.0300
KNIGHT SECURITIES	410,370	13,720.20	0.0334
LAZARD FRERES & CO	5,140,690	206,805.60	0.0402
LEERINK SWANN & CO	1,400	70.00	0.0500
LEGG MASON WOOD WALKER INC	1,800,727	73,592.08	0.0409

Transaction Commissions continued . . .

COMPANIES	SHARES TRADED	COMMISSIONS	COMMISSION PER SHARE
LEHMAN BROTHERS	4,073,101	156,524.68	0.0384
LEXINGTON INVESTMENT CO	872,100	35,896.00	0.0412
LYNCH JONES & RYAN	500	25.00	0.0500
MCDONALD & CO	97,100	4,855.00	0.0500
MERRILL LYNCH	21,502,142	778,408.04	0.0362
MIDWEST RESEARCH	27,700	1,385.00	0.0500
MOORS & CABOT	5,000	250.00	0.0500
MORGAN KEEGAN & CO	1,502,500	65,423.00	0.0435
MORGAN STANLEY/DEAN WITTER	6,233,127	221,811.69	0.0356
OTA LIMITED PARTNERS	112,000	2,370.00	0.0212
PAINE WEBBER INC	9,114,761	364,590.44	0.0400
PRUDENTIAL SECURITIES	1,099,200	48,244.00	0.0439
PULSE TRADING	71,200	2,136.00	0.0300
R W BAIRD	99,953	4,997.65	0.0500
RAYMOND JAMES & ASSOCIATES	3,644,200	154,344.00	0.0424
RBC DAIN RAUSCHER INC	222,600	13,299.00	0.0597
ROSS SINCLAIRE & ASSOCIATES INC	1,649,813	65,992.52	0.0400
S & P	669,000	26,760.00	0.0400
SANDLER O'NEILL	22,902	1,145.10	0.0500
SCHWAB CHARLES & CO	264,800	10,911.00	0.0412
SCHWAB SOUNDVIEW	168,900	7,614.00	0.0451
SMITH BARNEY/SALOMON	2,627,600	109,716.00	0.0418
SOLEIL SECURITIES CO	3,500	140.00	0.0400
SPEAR LEEDS & KELLOGG	864,394	8,643.94	0.0100
STATE STREET BROKERAGE	21,200	682.00	0.0322
STEPHENS INC	15,200	760.00	0.0500
SUNTRUST ROBINSON HUMPHREY	21,600	4,252.00	0.1969
SUSQUEHANNA BROKERAGE	17,700	442.50	0.0250
THOMAS WEISEL PARTNERS	94,000	4,632.00	0.0493
U S BANCORP PIPER JAFFRAY	138,385	6,919.25	0.0500
WACHOVIA SECURITIES	1,925,900	88,547.00	0.0460
WARBURG SECURITIES	498,100	35,726.00	0.0717
WEDBUSH MORGAN SECURITIES	45,500	2,012.00	0.0442
WEEDEN & CO	4,051,081	164,398.24	0.0406
WELLS FARGO SEC	6,300	315.00	0.0500
WIT SOUNDVIEW TECHNOLOGY	248,000	11,971.00	0.0483
TOTAL	$ 119,006,407	$ 4,471,794.91	0.0376

The over-the-counter commission rate on medium to large capitalization stocks is assumed to be $0.05 per share. The acquisition of initial public offerings (IPOs) represented a portion of small capitalization stock purchases. IPOs usually have a high commission rate. However, the security issuers and not the investors pay the commissions. In 2003-04, the System bought small capitalization IPOs that generated $115,347.25 in commissions. Although these commissions were not paid by the Retirement System, they resulted from the System's investment activities and are included in the total commissions of $4,471,794.91. Typical stock transactions occur at lower commission rates than IPO transactions, frequently $.04 per share. Investment companies usually provide investment research for brokerage clients. On occasion, investment companies direct third party research to active clients. The Retirement System received third party research through Merrill Lynch and Lehman Brothers. Trading commissions of $1,154,815.34 were associated with third party research obligations. The primary research providers were: Bloomberg, Capital Management Science, CRA/Rogers Casey, QED Information Systems and Vestek.

Ten Largest Stock Holdings Ranked by Market Value 06/30/04

Rank	Name	Shares	Market Value
1	Microsoft	8,712,400.00	248,826,144.00
2	Citigroup Inc	4,625,795.00	215,099,467.50
3	General Electric Co	5,911,590.00	191,535,516.00
4	Exxon Obile Corp	4,253,120.00	188,881,059.20
5	Pfizer Inc	5,119,087.00	175,482,302.36
6	Cisco System Inc	5,052,180.00	119,736,666.00
7	Johnson & Johnson	1,966,054.00	109,509,207.80
8	Wal-Mart Stores Inc.	2,010,600.00	106,079,256.00
9	Wells Fargo & Co.	1,815,775.00	103,916,803.25
10	American International Group	1,361,559.00	97,051,925.52

Top Ten Fixed Income Holdings 06/30/04

Rank	Description	Maturity	Coupon	Par	Market Value
1	US Treasury Bonds	08/15/2023	6.250%	96,500,000.00	106,873,750.00
2	US Treasury Notes	05/15/2007	4.375%	77,000,000.00	79,598,750.00
3	US Treasury Bonds	08/15/2029	6.125%	59,325,000.00	65,257,500.00
4	US Treasury Bonds	02/15/2021	7.875%	46,500,000.00	60,028,617.00
5	FNMA Notes	02/15/2006	5.500%	51,525,000.00	53,763,142.95
6	FHLB Bonds	03/06/2006	5.125%	42,000,000.00	43,601,250.00
7	US Treasury Bonds	05/15/2016	7.250%	35,500,000.00	42,921,701.00
8	US Treasury Strip Bonds	11/15/2004	0.000%	43,000,000.00	42,764,403.00
9	US Treasury Notes	10/15/2006	6.500%	38,980,000.00	42,074,037.50
10	US Treasury Bonds	08/15/2021	8.125%	29,815,000.00	39,448,971.88

Schedule of Investments
as of June 30, 2004

Investment		Par Value* or Remaining Principal Balance	Market Value	Percentage of Market Value
Repurchase Agreements		1,002,300,000.00	1,002,300,000.00	7.73
		1,002,300,000.00	1,002,300,000.00	7.73
Total Short Term				
Treasury Notes and Bonds		990,600,000.00	1,106,798,881.08	8.54
Agencies		1,059,783,070.27	1,101,943,172.20	8.51
GNMA (Single Family)		53,542,534.25	56,075,978.69	0.43
Collateralized Mortgage Obligations		20,264,854.08	20,821,953.68	0.16
Treasury Strip Bonds		161,000,000.00	142,695,166.00	1.10
Total U.S. Government Obligations		2,285,190,458.60	2,428,335,151.65	18.74
Industrials		621,439,569.00	655,562,790.75	5.06
Finance		990,857,986.51	1,001,883,461.42	7.73
Utility Bonds (Except Telephone)		123,400,000.00	128,647,999.00	0.99
Telephone Bonds		102,946,000.00	109,896,205.80	0.85
Total Corporate Bonds		1,838,643,555.51	1,895,990,456.97	14.63
FHA & VA Single Family Mortgages		29,643.14	34,182.99	0.00
Project Mortgages (FHA & GNMA)		20,922,204.38	26,760,754.74	0.21
State and Local Government Issues		23,450,000.00	25,866,823.00	0.20
Total Other Fixed Income		44,401,847.52	52,661,760.73	0.41
Subtotal (Fixed Income)		5,170,535,861.63	5,379,287,369.35	41.51
Real Estate Equity		369,874,490.33	365,389,452.80	2.82
Total Real Estate Equity		369,874,490.33	365,389,452.80	2.82
Common Stocks	98,305,267 Shares	3,949,361,569.74	3,865,326,950.81	29.83
Small Cap Stocks	9,170,028 Shares	165,647,451.54	173,689,434.82	1.34
600 Stock Index	5,211,306 Shares	125,102,729.57	140,461,066.04	1.08
500 Stock Index	84,879,486 Shares	2,961,905,420.71	3,035,661,043.92	23.42
Total Stocks	197,566,087 Shares	7,202,017,171.56	7,215,138,495.59	55.67
Subtotal (Equity)		7,571,891,661.89	7,580,527,948.39	58.49
Total Investments		12,742,427,523.52	12,959,815,317.74	100.00

* In this asset display, par value represents the redemption value of bonds and the cost value of equities. Market value is a volatile measure that changes daily and represents the approximate transaction value of an investment on a particular day--in this case June 30, 2004. Detailed information concerning these values along with book values and cost values of all KTRS investments is available on request.

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